Date: December 27, 2024

To:

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Subject: Comment Letter: Proposed Amendments to Modernize Investment Fund Continuous Disclosure Regime

Dear Sir/Madam,

As a retail investor advocate, I appreciate the opportunity to comment on the Canadian Securities Administrators' (CSA) Proposed Amendments to Modernize the Continuous Disclosure Regime for Investment Funds. These proposed changes have the potential to significantly impact retail investors, and I wish to address both the opportunities and challenges they present.

General Comments

The modernization of the continuous disclosure regime is a key step toward enhancing retail investor engagement and trust in the regulatory framework. Retail investors rely on concise, relevant, and comprehensible information to make informed decisions. While the proposed amendments generally seek to reduce unnecessary regulatory burden, they must not come at the expense of transparency and investor protection.

Responses to Consultation Questions

Workstream One – Fund Report

1. **Frequency of Preparation**:
Maintaining annual and interim reporting requirements aligns with retail investors' needs to stay informed about their investments. The twice-per-year requirement provides timely updates on fund performance and is consistent with global practices. Reducing the frequency could limit transparency and hinder informed decision-making.

2. **Forward-Looking Information**:
The standardized language proposed for forward-looking disclosures is a positive step. However, since this type of information is inherently uncertain and subject to change, investors would benefit from clearer guidance on the nature and limitations of such disclosures to avoid misinterpretation. Funds should explicitly state that projections are not guarantees and are based on assumptions that may not materialize. Without clear disclaimers, retail investors may take forward-looking statements as promises of future performance, which could lead to unrealistic expectations or poor investment decisions.

   The flexibility offered by the "Other Material Information" section allows funds to include additional forward-looking insights. However, this flexibility must be balanced with clarity to avoid overwhelming investors with technical or speculative content.

3. **Years of Fund Expense Ratio (FER) Disclosure**:
Requiring only one year of FER data in the "Costs" section risks obscuring trends that may be critical for investor analysis. To address this concern, the CSA could either include a brief summary of any significant changes in FER compared to previous years within the one-year disclosure format or provide a clear cross-reference or link to historical FER data. Either approach would simplify fund reports while preserving access to comprehensive cost information for those who seek it.

4. **Management Expense Ratio (MER) Without Waivers or Absorptions**:
The proposed disclosure of MER without waivers is essential for transparency. However, it must be paired with contextual explanations that allow investors to understand why this figure differs from the effective MER they currently pay and appreciate that the absence of these subsidies could affect the fund's expenses and, consequently, its performance in the future.

5. **ESG-Specific Disclosures**:
ESG-related disclosure requirements should strike a balance between providing meaningful information and avoiding overly complex narratives. A concise yet comprehensive summary of ESG strategies and outcomes will enhance retail investor understanding without overwhelming them.

6. **Performance Disclosure by Class or Series**:
Limiting performance disclosure to the class or series with the highest management fee may inadvertently exclude relevant data for investors holding other classes or series. Retail investors often choose lower-fee classes for cost efficiency. Without broader fee visibility, they will be unable to verify whether the lower fees translate into better net returns. One possible solution would be a side-by-side comparison of performance for the highest-fee and lowest-fee classes, providing a stylized visual of the impact of fee structures on returns.

7. **Liquidity Profile**:
The new "Liquidity Profile" section is a valuable addition. However, it must use plain language and visual aids to ensure retail investors can easily interpret the information.

Workstream Two – Conflicts Reports

The consolidation of related party transaction disclosures into an appendix to the Independent Review Committee's annual report is practical. However, it is essential to ensure that such disclosures remain easily accessible to retail investors, either through cross-references in the Fund Report or through clear navigation tools on designated fund websites.

Workstream Three – Financial Statements

1. **Elimination of Class- or Series-Level Disclosures**:
The proposed elimination of class- or series-level disclosures in financial statements may reduce complexity, but it also risks limiting transparency. Retail investors benefit from access to detailed fee and performance information across all classes or series. Efforts should be made to retain this data in an accessible format elsewhere if it is removed from financial statements.

Additional Feedback

1. **Implementation Timelines**:
   The proposed three-month effective date and nine-month exemption period seem reasonable, but clear transitional guidance is crucial for investment fund managers. Retail investors should be informed in advance about changes to disclosure formats to manage their expectations.

2. **Investor Awareness**:
   The success of the proposed Fund Report hinges on investor awareness. The CSA needs to collaborate closely with fund managers in developing and implementing this information campaign. Fund managers direct interaction with investors, deep understanding of their products, and communication infrastructure position them as essential partners in the successful roll out of these changes.

3. **Designated Website Disclosure**:
   The inclusion of quarterly portfolio disclosure and other detailed data on designated websites is a commendable step toward transparency. However, it is critical to ensure these websites are user-friendly and that disclosures are easy to locate and interpret.

4. **Other Areas for Modernization**:
   Beyond the current scope, CSA should explore modernizing the delivery mechanisms for continuous disclosures. Integrating interactive digital formats, such as dashboards or mobile-friendly reports, could enhance retail investor engagement.

Conclusion

The Proposed Amendments represent a significant opportunity to improve the continuous disclosure regime for investment funds. From a retail investor perspective, it is imperative to prioritize transparency, clarity, and accessibility while minimizing unnecessary complexity. I urge the CSA to carefully consider the above feedback to ensure the final amendments effectively serve retail investors.

Thank you for the opportunity to provide these comments. Please do not hesitate to contact me for further discussion or clarification.

Yours sincerely,

Harvey S. Naglie

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